DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Reduced Capacity Business Credit

April 7, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 125 (Hertaus) / S.F. 68 (Osmek)

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
		(000's)		
General Fund	($93,800)	$0	$0	$0

Effective retroactively for tax years 2020 and 2021.

EXPLANATION OF THE BILL

To cope with the COVID-19 pandemic, the Governor of Minnesota issued multiple executive orders which require certain businesses to either close or operate at reduced capacity.

The bill creates a temporary nonrefundable credit against the individual income tax or corporate franchise tax for qualifying taxpayers whose business is affected by the executive orders. The credit is equal to the taxpayer's tax liability multiplied by the business's average annual reduced capacity.

A qualifying taxpayer is a taxpayer whose business is a place of public accommodation that was either close or required to operate at reduced capacity by Executive Order No. 20-04 or Executive Order No. 20-74, as extended, amended, and otherwise modified by any related executive order.

The average annual reduced capacity is based on the number of months the business was affected by executive orders and the lowest reduced capacity in each month. The average monthly reduced capacity is calculated as the sum of the lowest reduced capacity in each month divided by the number of months operating at reduced capacity. That amount is multiplied by the executive order impact quotient, or the number of months the business was subject to an executive order divided by 12, to get the average annual reduced capacity.

For example, if a business was required to operate at 50% capacity for nine months of the year, the average annual reduced capacity would be 37.5% (50% x 75%). In that case the credit would be equal to 37.5% of the taxpayer's tax liability.

For S corporations, limited liability companies, or partnerships, the credit is passed through to the entity's shareholders or partners. The credit is nonrefundable and may not be carried forward.

REVENUE ANALYSIS DETAIL

- The estimate is based on tax liability by NAICS code for corporations and sole proprietorships with Schedule C income in 2018, adjusted to reflect expected tax liability in 2020. Information on S corporations and partnerships was not immediately available by NAICS code. The estimate was increased to account for S corporations and partnerships.

REVENUE ANALYSIS DETAIL (Cont.)

- The average annual reduced capacity was calculated for each NAICS code based on executive orders issued from March 16, 2020 through March 12, 2021. It is assumed that the current restrictions will continue through June 30, 2021.
- In cases where a taxpayer has multiple affected businesses which may have different monthly reduced capacities, the lowest reduced capacity was used to calculate the credit.
- Impacts for tax year 2020 and 2021 were allocated to fiscal year 2022.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_
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